

§ 1786.210

Act in accordance with the terms thereof or as may be otherwise permitted by law.

§ 1786.210 Approvals.

The borrower shall be responsible for obtaining all approvals necessary to consummate the transaction as required by the refinancing note, including such approvals as may be required by regulatory bodies and other lenders.

PART 1788—RUS FIDELITY AND INSURANCE REQUIREMENTS FOR ELECTRIC AND TELEPHONE BORROWERS

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AUTHORITY: 7 U.S.C. 901 *et seq.*; 7 U.S.C. 1921 *et seq.*; Pub. L. 103–354, 108 Stat. 3178 (7 U.S.C. 6941 *et seq.*).

SOURCE: 51 FR 25855, July 17, 1986, unless otherwise noted.

Subpart A—General Policies and Procedures

§ 1788.1 General.

This part sets forth general Rural Utilities Service (RUS) policy and requirements for minimum insurance and fidelity coverage for electric and telephone borrowers and provides information for borrowers to meet those requirements.

§ 1788.2 Policy.

(a) *Specific coverages required.* RUS mortgage provisions require that borrowers procure specific minimum insurance and fidelity coverage and that they maintain this coverage as long as the loan or guaranteed loan remains unpaid.

(b) *Evidence of coverage.* Borrowers shall furnish RUS satisfactory evidence that required insurance and fidelity coverage is being continuously maintained.

(c) *Excess coverage.* Borrowers may purchase insurance or fidelity coverage in excess of the RUS requirements.

(d) *Borrower responsibility.* Procurement of insurance and fidelity coverage is the primary responsibility of the borrower.

(1) The borrower shall purchase required coverages from companies of the borrower's choice, provided the companies selected are licensed to do business in the state, or states, in which the borrower operates.

(2) The required insurance and fidelity bond coverage shall be in accordance with acceptable insurance industry types of bonds and policies.

(3) If a borrower fails to purchase or maintain the required insurance and fidelity coverages, the mortgagees may place required insurance and fidelity coverage on behalf and in the name of the borrower. The borrower shall pay the cost of this coverage, as provided in the loan documents.

(e) *Losses not covered.* In the event of a loss not covered because of a deductible provision in an insurance policy, the borrower should treat the loss as an expense in the year in which it occurs if provision has not been made for such losses in an insurance reserve account. If an insurance reserve has been established, the amount of the loss should be charged directly against that account. Ordinarily, losses not covered because of a deductible provision can be absorbed as current operating costs. A reserve account may be established to provide for losses which would be excluded because of a deductible and the following guidelines are recommended:

(1) The reserve balance at any one time should not exceed the total of the deductibles in the borrower's insurance policies.

(2) The annual credit to the reserve account should not exceed one-tenth of the maximum reserve balance, as set forth above, or a lesser amount needed to maintain the reserve at the maximum level.

(3) No reserve should be considered for losses to outside plant or for other coverages not required by RUS.

(4) Accounts used for such reserves shall be as specified in the applicable Uniform System of Accounts.

§ 1788.3 Certification of insurance coverage.

Borrowers shall furnish written evidence to RUS within sixty (60) days of the close of each calendar year stating that during such year all insurance required by this part 1788 was in force and renewals have been obtained for all policies. The annual certification will be subject to audit verification.

§ 1788.4 New borrowers' procedure.

New borrowers shall furnish RUS, by letter, a schedule of their insurance policies in force, showing the name of the insurance company, specific type of policy, policy number, expiration date, and the amounts of coverage. In the case of fire insurance policies, new borrowers shall specify amounts of coverage (building, contents) and a complete description of the locations. For workers' compensation, in those states where a state agency administers the workers' compensation fund, new borrowers shall provide the file or account number in lieu of a policy number.

§ 1788.5 RUS endorsement required.

(a) Each insurance policy, other than fidelity bonds or policies, purchased by borrowers to meet the requirements of RUS shall contain the following RUS Endorsement:

The insurer agrees with the Rural Utilities Service as follows:

1. That this endorsement forms a part of the original policy.

2. Changes in policy forms or endorsements, as a result of approval by a regulatory authority, will be submitted to the Rural Utilities Service prior to use for a borrower of said Administration.

3. That it will mail to said Administration, at least 10 days before the effective date thereof, notice of cancellation or termination of said policy.

4. That each endorsement subsequently issued will become a part of said original policy.

(b) When the RUS Borrower is a subsidiary of a parent corporation, RUS requires the following endorsement for policies covering subsidiary companies be included as a part of each public liability and fire policy.

The Insurer agrees with the Rural Utilities Service, as follows: